McGraw-Edison Company
Annual Report 1976

Results in Brief

($000's omitted except per share amounts)

For the Year	1976	1975
Net sales	$1,007,420	$874,627
Net income	56,476	37,686
Per share	3.47	2.32
Percent of sales	5.6%	4.3%
Dividends	22,791	20,668
Per share	1.40	1.275
Year-end inventories as a percent of sales	22.9%	24.6%
Capital expenditures	17,019	17,764
Depreciation	16,880	17,444

At Year-end		
Working capital	$ 352,121	$310,768
Current ratio	3.2 to 1	3.4 to 1
Acid test ratio	1.7 to 1	1.6 to 1
Long-term debt	59,863	62,270
Debt/total capitalization	12.9%	14.4%
Stockholders' equity	403,693	368,998
Stockholders' equity per share	24.76	22.70
Return on average stockholders' equity	14.6%	10.5%
Return on average stockholders' equity and long-term debt	12.6%	8.9%
Common stock price range	32½-21¾	23-11½
Common stock price at year-end	31⅜	22½

Annual Meeting

The annual meeting of stockholders will be held at 2 p.m. Central Daylight Savings Time, Wednesday, April 27, 1977, on the 13th Floor of The First National Bank of Chicago, One First National Plaza, Chicago, Illinois.

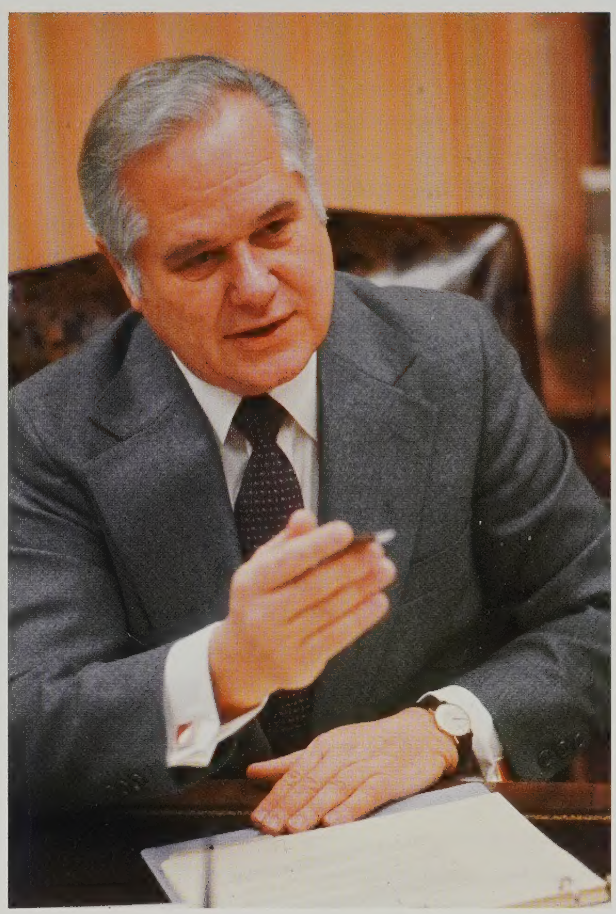
Form 10-K

A copy of Form 10-K annual report filed with the Securities and Exchange Commission, will be furnished on request. Please direct requests to the Secretary, McGraw-Edison Company, 333 West River Road, Elgin, Illinois 60120.

Cover Photo

High-voltage power transformers manufactured by McGraw-Edison's Power Systems division assist utilities in providing electrical energy to households and industry hundreds of miles away.

To McGraw-Edison Stockholders:



The dedication of McGraw-Edison employees to the high standards of leadership in the segments of the electrical equipment industry in which the company participates, brought with it record performance in 1976.

- Sales exceeded $1 billion for the first time.

- Though the business climate lacked confidence and stability in many areas, sales increased 15.2 percent, our strongest growth in over a decade.

- Earnings per share of $3.47 were a record, exceeding the prior year's by $1.15 per share and our previous record of $2.53 in 1972 by $.94 per share.

- Net earnings increased 50 percent over the previous year.

- Return on stockholders' equity of 14.6 percent was also the best in over a decade and well above the previous year of 10.5 percent.

There are other aspects of the record performance that support a confident attitude for 1977 and beyond.

The restructuring of the company that has been taking place over the past several years is all but completed. Eight major operating units capable of self development and a Commercial Development division in which new businesses can be grown, now replace the loose federation of nearly 30 smaller, independently-run divisions of the past. Strong direction is provided by a reorganized corporate headquarters, with top operating officers having worldwide responsibility for their businesses. A description of each of the units is presented in the following section of this report.

One of the goals established at the outset of our restructuring was to define, prune and cultivate our operating units so that our performance would rank in the upper quartile of our industry. This has been accomplished in seven of our nine operating units which collectively earned 21.3 percent after tax on capital employed.

In one of the two remaining units, our Portable Appliance and Tool Group, substantial progress has been made. This is a business of moderately priced products with a relatively high percentage of costs in materials and tooling. During periods of rapid change in consumer preferences and rapidly increasing material costs, as we have experienced in the last several years, profitability suffers because of the extra costs of more frequent product redesign and production retooling required. To this, we added a major reorganization of the entire business.

The appliance portion of this business earned a profit in 1976, despite absorbing a high level of reorganization and development costs. The tools portion, although recording a loss for the year, is nearing breakeven. The investment in developing programs for the Portable Appliance and Tool Group can best be judged in long-term perspective. We expect this business, which accounted for 13.7 percent of our 1976 sales, to contribute increasingly in the periods ahead.

One cannot expect the developing businesses in the Commercial Development division to meet the same operating goals as our established businesses. However, the division's return on capital employed is nearly 15 percent before taxes which is adequate to assure orderly development. Sales of these product lines approximate 3.7 percent of total sales.

The success of our efforts to improve earnings quality, continuity and, hence, credibility as an upper quartile performer, is also reflected in the steady pace of sales throughout the year. It indicates a growing capability to plan our business, to respond to changing economic conditions and to manage those product lines of a seasonal nature within the framework of our total business. The growth of the economy in 1976 was far from smooth, with the first half of the year showing a strong upward movement and the second half deteriorating to where very little real growth occurred in the fourth quarter. Sales for the last half of the year for McGraw-Edison were equal to the first half, as was the case in 1975, and the 15.2 percent sales increase for the year as a whole was about equally earned in both halves.

For the second year in a row, our utility equipment business established new sales and earnings records. Sales for 1976 were $277.8 million, up 10 percent over 1975, and net income before taxes increased 43 percent to $39 million. The outlook for this part of our business is very good as the rate of increase in the consumption of electricity returned to more normal levels in 1976, following a two-year lull. Electrical equipment sales have increased as large equipment sales peaked in 1976. Some falloff is expected in 1977. While our utility equipment business may produce lower profits in 1977, we expect its performance to be no less than the second best in our history.

The company's industrial business achieved record sales and net income for the 11th consecutive year. Sales were up 20 percent to $361.2 million, and net income before taxes was $56.2 million, up 35 percent.

Consumer operations earned $16.9 million before taxes on sales of $368.5 million compared to earnings of $2.6 million in 1975 on sales of $322.5 million. Total profits produced by our major appliances and other consumer products, except portable appliances and tools, were the highest in the company's history. As the latter group responds to the efforts discussed earlier, the strength of our consumer business will be more clearly indicated.

Our already superior balance sheet was further improved upon during 1976 and is adequate to finance our present businesses without increasing debt. Debt to total capitalization stands at 12.9 percent, and our current ratio is 3.2.

In July, Herbert M. Appleton and L. Hardwick Caldwell, Jr. were promoted to executive vice presidents responsible for utility and industrial operations and consumer and commercial operations, respectively. These promotions were an important move in aiding overall corporate direction of our new operating organization.

Several changes in our board of directors have occurred recently. In December, Executive Vice President John B. Murray, retired from the company and the board, after a distinguished career of 43 years with McGraw-Edison Company and

its Speed Queen division. Mr. Appleton became a director in his stead. Following the year-end, Phillip H. Smith, a director since 1973, resigned to give more time to an expanded commitment to his own company. Richard N. Rosett, Dean of the Graduate School of Business at the University of Chicago, was elected to fill the vacancy created by Mr. Smith. We shall miss the advice and counsel of Messrs. Murray and Smith and feel fortunate to have two eminently qualified men to carry out the responsibility to which they were dedicated.

One cannot discuss 1976 without taking note of the death of Joseph A. Bussmann, Jr. early in the year. Joe, who had spent 26 years with the company, was one of several members of the Bussmann family who continued to run the company following its acquisition in 1929, until Joe's death this year. Always a top performer, Joe is missed by those who worked with him as president of Bussmann, a group president of the company and a director.

During a year in which unemployment was a continuing topic for discussion, our own employment increased 5.7 percent, averaging 24,100 employees, compared with an average of 22,800 the preceding year. Productivity per employee improved.

Many of our employees are McGraw-Edison stockholders, and this employee ownership role has continued to foster high operating standards and to promote a healthy understanding of difficult economic problems.

Through our profit sharing plan, approximately 13,500 employees own 3,397,951 shares or 20.8 percent, of the company's stock. On July 1, 1976, employee owners were offered the opportunity, for the first time since profit sharing began 24 years ago, to have their McGraw-Edison shares converted to a diversified investment fund. Less than two percent of these shares were converted.

The success of our free enterprise system depends on adequate capital to finance growth. McGraw-Edison has been eminently successful in supplying its capital needs from internally-generated retained earnings. We believe that employee ownership in McGraw-Edison Company has been a significant factor in helping the company achieve this strong financial position. Careful asset management and the understanding of productivity, both in effort spent on the job and pride in quality, are apparent in many ways throughout the corporation and particularly in "the bottom line"—net income. The attitude of our employees continues to be one of the company's greatest assets.

The quarterly dividend was raised twice during 1976 and again last month, following the announcement of 1976 results. At the current level of 40 cents per quarter, the $1.60 annual rate represents a new high. Dividends have been paid every year since 1934.

Looking to the future, we have a number of reasons to be optimistic about McGraw-Edison Company.

First, annual increases in electrical power consumption should be at least six percent for the remainder of this decade and around seven percent in the early 1980's. This rate of growth could increase even more with the growing scarcity and increasing cost of oil and natural gas resources.

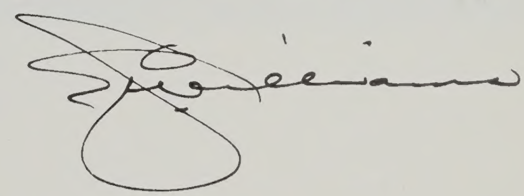
Second, we will make better use of the strengths of our diversified business because of our stronger organization, improved planning and a more cohesive approach to managing our business.

Third, we are placing increased emphasis on research and development capabilities and the ongoing development of high quality new products.

Fourth, we are increasing our capital expenditure programs and are changing them from the brick and mortar programs of earlier years, which we needed to modernize and better locate our facilities, to retooling and new business development.

Fifth, we have a stronger, more professional team of top managers than ever before.

Above all, our success in 1976 demonstrates that while we haven't solved all of our problems, we have become and will continue to be an outstanding performer in our industry.



Edward J. Williams
Chairman and President
March 4, 1977

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Electric power will supply a steadily increasing percentage of energy requirements in the years ahead because it is the most efficient means of converting energy to usable form. As a leading U.S. producer of equipment and services used in the transmission, distribution and storage of electrical energy, the Power Systems division will contribute significantly to the effectiveness of electric utilities working to meet this challenge.

From the electric utility generating station to the ultimate user of power, the division offers its customers a broader line of transmission and distribution apparatus than any other manufacturer. "Step-up" transformers increase generated voltage up to 765,000 volts for transmission up to several hundred miles, while other transformers "step down" the voltage to practical levels for industrial, commercial and household use.

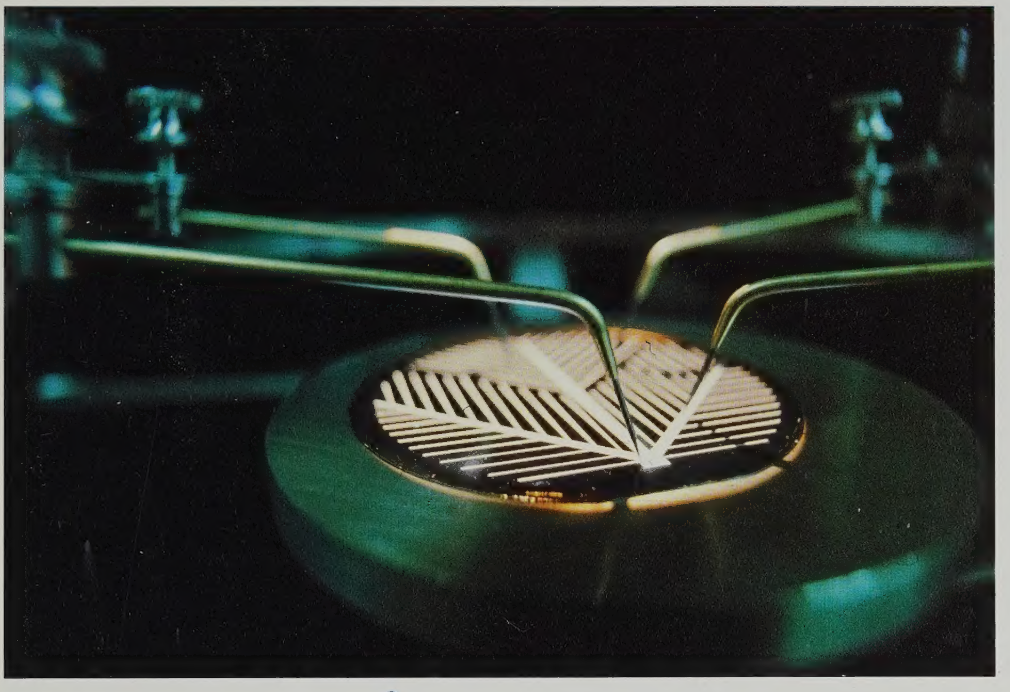
Along the way, the division's switchgear apparatus helps assure system reliability by automatically interrupting circuits under fault conditions and performing routine switching for system balance or maintenance. System efficiency is improved through the use of McGraw-Edison voltage regulators, which automatically adjust voltage to optimum levels, and power capacitors, which have the effect of increasing circuit capacity. Protection against potentially damaging surges caused by lightning and transient system conditions is provided by high-voltage fusing equipment and surge arresters.

To help utilities design more efficient and reliable systems, the division simulates electric utility systems in miniature to study insulation and equipment requirements in advance of major investments. The division also is involved in the search for new and improved energy sources, including solar devices and advanced battery designs.

Market Comment

Power Systems' principal market is the electric utility industry, which is resuming its normal rate of growth. It is a market in which change normally occurs in an evolutionary rather than revolutionary fashion, but with energy demands and costs increasing, new ways are being sought to increase reliability and efficiency.

The international market for utility products is expanding, particulary in the Middle East, the Far East and Latin America. Shipments were made to more than 60 countries in 1976, a number that will grow as more developing nations initiate major electrification projects.



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1 These 230,000 volt power circuit breakers protect electric utility equipment and power lines.

2 Testing a solar wafer, energy source for recharging storage batteries.

Increased participation in the industrial market will be accomplished through a newly created marketing section, with sales representation in most major U.S. metropolitan areas.

1976 Highlights
Shipments and new orders received during 1976 were the highest in the division's history, up about 10 percent and 36 percent respectively, over 1975. Large transmission equipment sales peaked in 1976, reflecting industry ordering patterns of the last few years.

During 1976, the division became the first manufacturer in the industry to totally eliminate use of polychlorinated biphenyls (PCB's) as the insulating fluid in power capacitors. The fluid substituted—developed in cooperation with Dow Chemical Company—is a nontoxic, environmentally safe fluid called Edisol.

During the year, the company's Edison Battery division was made a part of the Power Systems division. This change merges the corporation's capabilities in the storage and generation of electricity (through batteries and solar energy rechargers) with its strengths in the transmission and distribution of electrical energy. To expand international marketing, Power Systems purchased an equity interest in its former Mexican licensee, and to expand its construction hardware production, it purchased a plant in Mississippi.

Long a leader in the application of vacuum technology to circuit interrupting devices, Power Systems in 1976 extended this expertise to a 15,000 volt power circuit breaker. Vacuum interruption, which provides faster operation and reduced maintenance, will be made available in higher voltage circuit breakers during 1977.

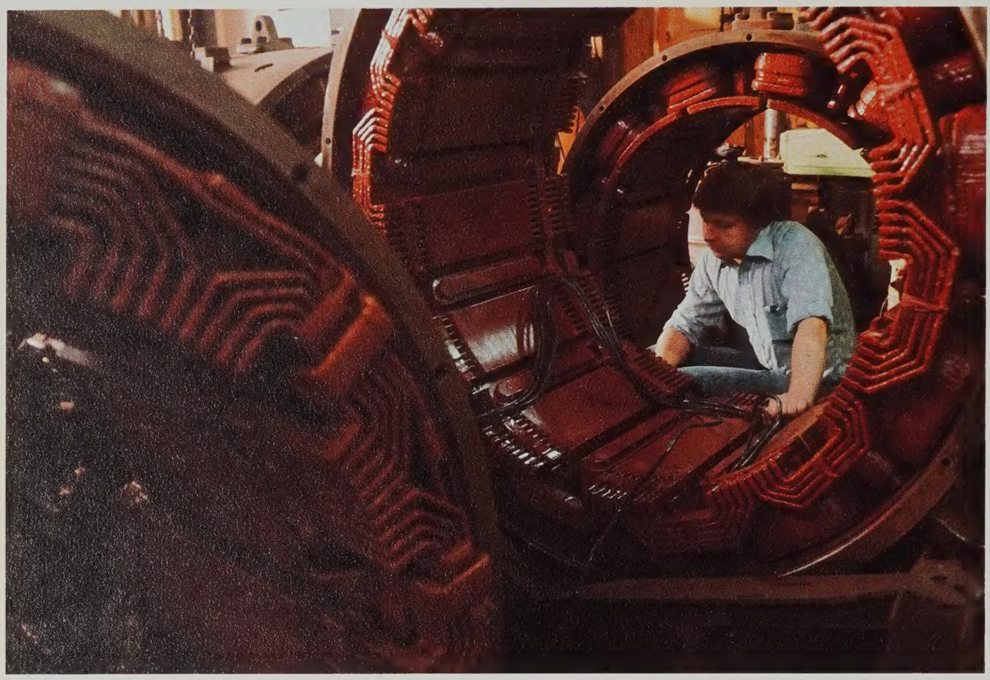
Other new products introduced in 1976 were an automatic load-transfer package for switching power sources in emergencies, vacuum-interruption switches for application in underground distribution systems, and two new types of small, padmounted transformers for single residences and other relatively limited requirements.

Outlook
Since the oil embargo and the economic recession of 1974-75, the electric utility market has stabilized considerably. Prospects for future growth are excellent, with forecasts of annual increases in power consumption (kilowatthour sales) around six percent through this decade, and then increasing to nearly seven percent in the early 1980's.

Currently, customer inventories of frequently used items are relatively low, creating a steady demand for most power distribution products. The demand for these products should improve further with a sustained economic recovery coupled with increased housing starts. While large transmission equipment is being ordered at a brisk pace for delivery in future years, 1977 sales of this equipment likely will be somewhat less than the peak level of 1976, reflecting industry ordering patterns and the somewhat lower rate of power consumption during the last three years.

Growth in the demand for distribution products, plus continued strengthening of international operations during 1977, should help to offset the expected decline in shipments of large equipment. Overall performance of the Power Systems division in 1977 is expected to be somewhat less than the peak performance of 1976, but the future for this energy-related division is very positive.

National Electric Coil Division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The National Electric Coil division services and rebuilds rotating electrical machinery and manufactures lifting magnets. It has the capability to repair or rebuild almost any type or size of electrical equipment including motors, steam turbine generators, hydro-generators, transformers and control apparatus. The division operates 25 plants and service centers in the United States and Canada with sales engineers in principal cities throughout the world.

Market Comment
Major markets served by the division are the electric utility, mining, railroad, steel and metalworking, paper and general manufacturing industries. National Electric Coil's sales have risen at an average annual rate of 29 percent since 1971.

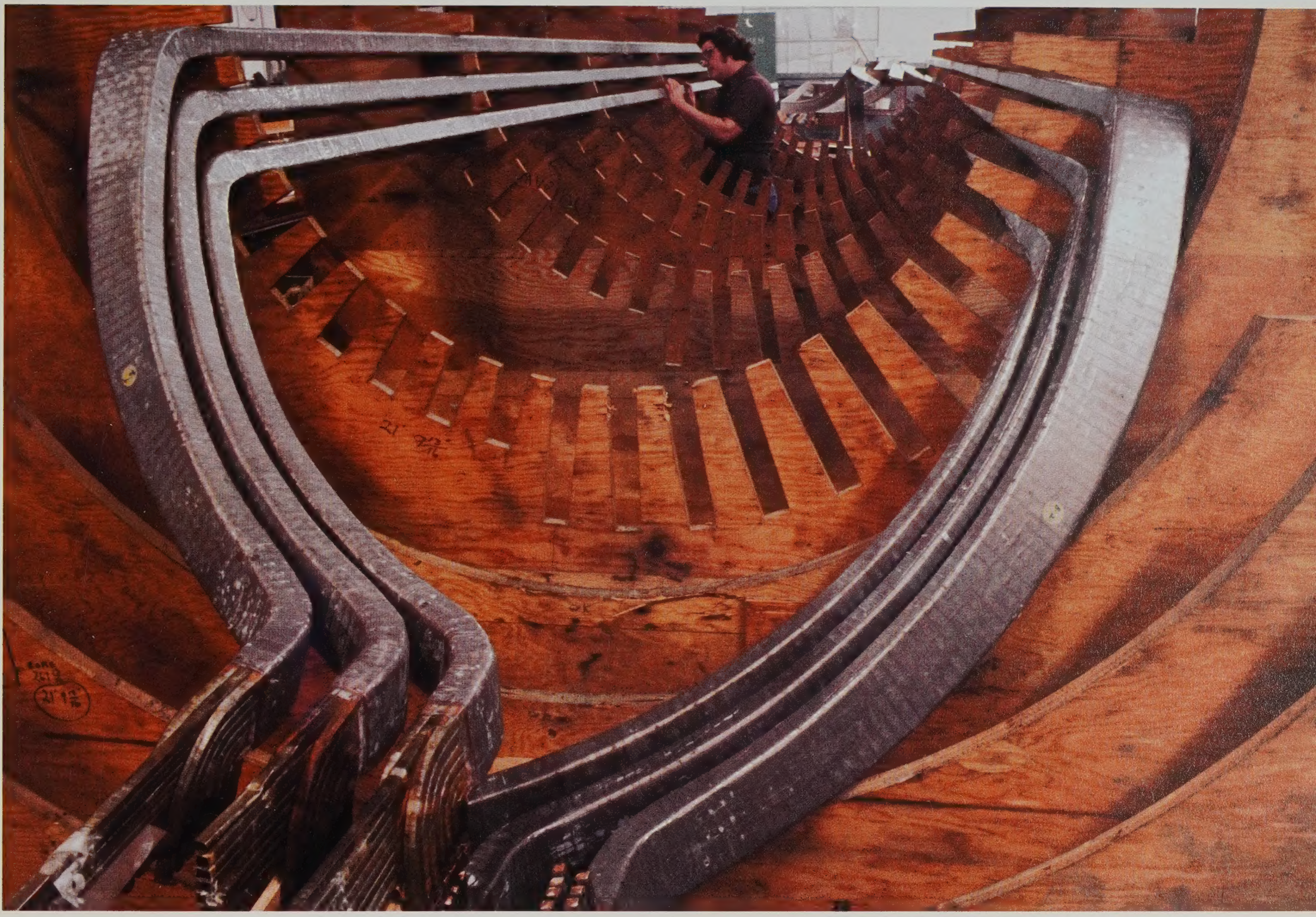
1976 Highlights
National Electric Coil achieved record sales and earnings in 1976, for the third consecutive year.

During the year, the division completed phase one of a six-year, over $40 million project for the U.S. Energy Research and Development Administration to rebuild and uprate the horsepower of more than 3,000 motors used in uranium enrichment processing plants for nuclear fuel.

The division was awarded a multi-million dollar contract for the rewinding of 10 hydro-generators at the Wells Dam power generating station on the Columbia River. It also signed a contract to supply portable electric substations for the U.S. Mintac Mines in Minnesota, expanding the market for this product which previously had been limited to the Florida phosphate mining industry.

Overseas, National Electric Coil completed rewinding work on two hydro-generators at Blendon Ffestiniog in the United Kingdom using U.S. manufactured coils.

During the year, the division added to its chain of motor repair facilities with the addition of two shops in the Los Angeles, California area and one in Arlington, Texas. In addition, construction of new repair facilities was begun in Houston, Texas and near Tampa, Florida, and the division's Detroit plant was moved into a larger facility, nearly doubling the division's lifting magnet production capability.



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1 Inspecting generator frames for railroad traction motors.

2 Industrial lifting magnets.

3 Inspecting new electric coils for a large generator.

New products developed in 1976 included insulation testing equipment and a pneumatic drive wire stripper. Both products are unique and are showing promising sales potential.

Outlook

National Electric Coil's business has grown dramatically during the last few years through the expansion of major production facilities, the addition of motor repair facilities in a number of new locations, and new marketing and customer service programs. A continuation of these activities plus greater emphasis on overseas business will help the division to continue to grow.

Bussmann Manufacturing Division

The Bussmann Manufacturing division produces a wide variety of industrial, residential and current limiting fuses. These products range from very small, extremely precise fuses used in the U.S. space program through well-recognized glass automotive and residential plug fuses, to very large fuses used to protect heavy industrial equipment, large buildings and sports facilities.

Products manufactured by the Bussmann division serve many markets including industrial, commercial, marine, residential, government, electronic and automotive. The division's major brand names are Buss, Hi-Cap, Limitron, Fusetron and Tron.

1

Market Comment

Over the years, the demand for fuses has fluctuated, increasing with technological developments and new applications for fuses. One important and rapidly growing application for fuses is short circuit "current limitation." With electric power companies interconnecting their systems to form large power networks and with increased power in most circuits, the need has developed for devices with greater current interrupting capacity to protect against short circuits.

1976 Highlights

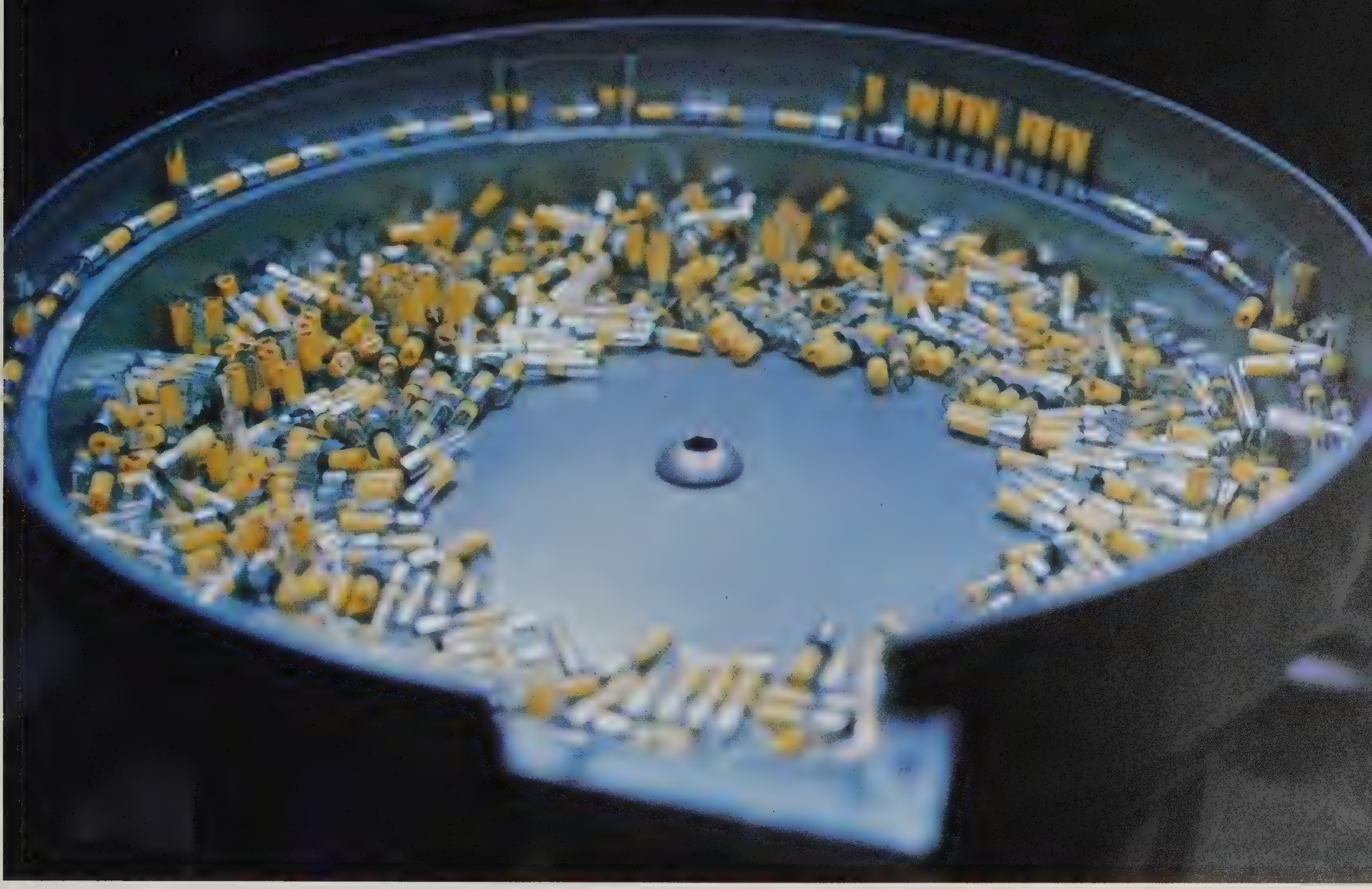
During 1976, the Tron fast-acting fuse made by Bussmann was selected as a component in a new commercial loadcenter (roughly equivalent to a home fuse box) manufactured by a leading company supplying the industry. Also introduced during the year was the Buss semiconductor fuse, the result of a five-year research and development program.

Significant operational improvements were implemented at the division including improved factory controls and customer service, plus the development of a finished goods warehousing system utilizing the latest technology. In addition, the division's headquarters were relocated into modern office space in suburban St. Louis, Missouri. Recently established operations in Bristol, Connecticut and Elizabethtown, Kentucky became more significant in the division's operating network as the business has expanded.

Outlook

Since 1929 when Bussmann merged with McGraw-Edison, it consistently has been one of the company's good performers. With the division's strengthened engineering and quality assurance functions and improved operating efficiencies, plus new marketing programs and significant capital expenditures scheduled for 1977, the outlook for Bussmann division is excellent.

Longer term, the division's emphasis on research and development should help to create technological developments to continue to expand the markets for its fuses and related devices.



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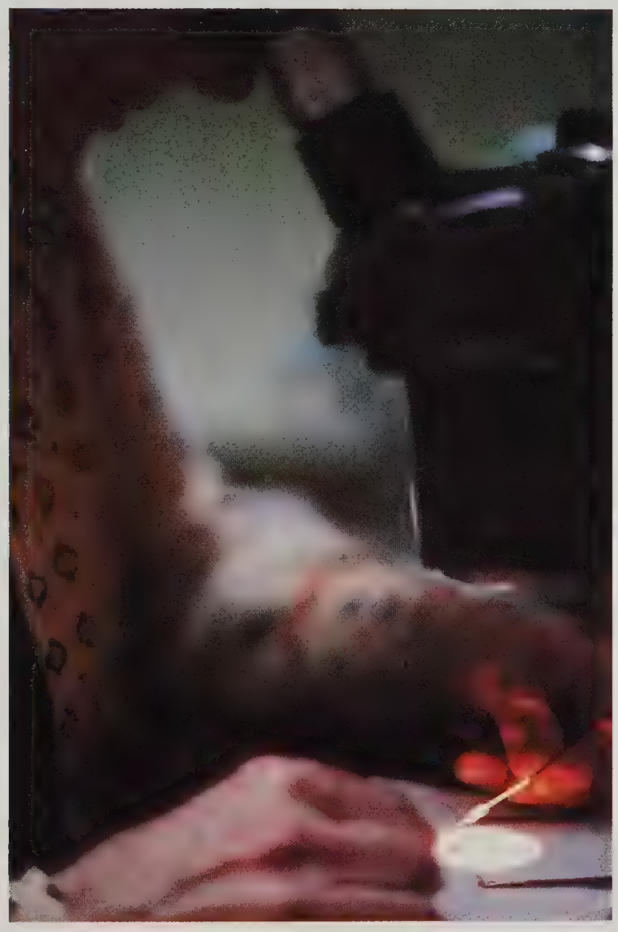
1 Assembly of large fuses for specialized industrial applications.

2 Color-coded fuses for automobiles.

3 Tiny, extremely precise fuses for spacecraft.



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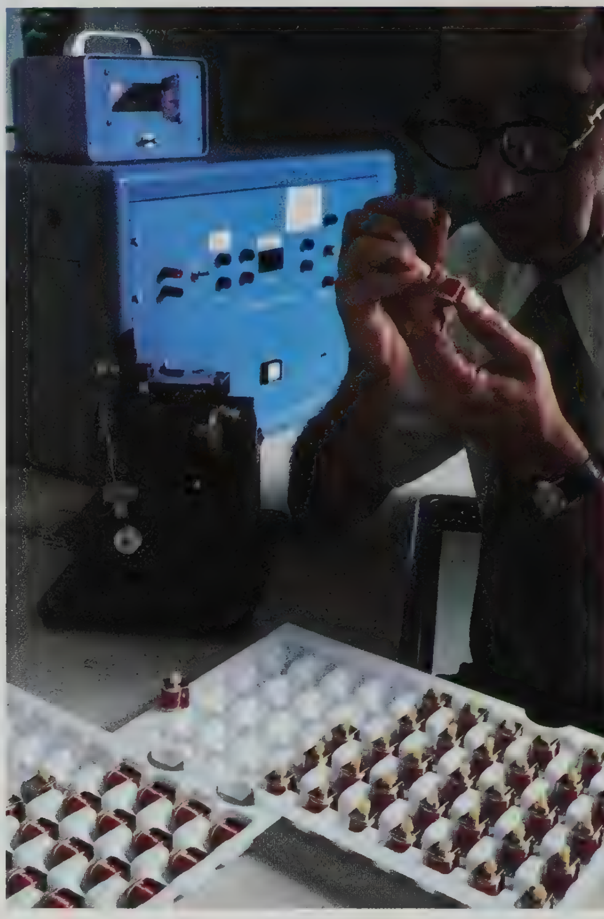

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The Commercial Development division was formed late in 1976 to provide management assistance to a number of smaller product lines in the company and to provide a vehicle for commercializing new technologies and developing businesses. This new division currently includes most of the product lines of the former Brevel Motor, Edison Electronics and Gemco Electric divisions.

Among the major products produced and markets served are:
• electronic test equipment for the communications industry;
• electro-mechanical components such as cam operated switches for the machine tool industry, precision rotary and toggle switches for the electronic and aerospace industry, rugged and flexible cable and hose carriers for heavy industrial machines;
• sub-fractional horsepower motors and gear motors for appliances, computers, copying machines, vending machines, and pumps;
• solenoids and timers for appliances, cameras, and office machines;
• temperature sensing and monitoring devices used on motors, generators, aircraft engines, pipe lines, and oil drilling rigs;
• fire detection sensors for use on aircraft engines, petro-chemical installations, power stations and in other hazardous environments.

Market Comment

The market for many of these products is in the capital goods sector which is recovering more slowly than the overall economy. The lack of growth in the exploration for oil and gas and the depressed commercial aircraft business have affected sales in 1976. However, sales to machine tool and automated equipment markets have increased as the demand for labor saving devices continues to grow. The growth of appliance sales assisted a recovery in the sale of small motors, but general over-capacity in the industry continues to make this a highly competitive business with low profit margins.

1976 Highlights

The Edison Electronics small open-frame rotary switch and audio attenuator business was sold, and the remainder of the business was reorganized into three product operations. Deliveries of switches for the first two space shuttles were completed, and a new instrument for testing CB radios was introduced. Development contracts for engine flame-out detectors were obtained for the new F-16 and F-18 aircraft, and a line of temperature monitors was redesigned with solid-state circuitry.

The Brevel and Ingraham operations were combined to eliminate product duplication and to provide a single source of sub-fractional horsepower motors to a larger market.

Because of significant improvement in the automotive and machine tool business, Gemco Electric had a very successful year.

Outlook

The role of the Commercial Development division is to create and develop product lines or businesses to the point where they can stand on their own as separate divisions of the company. Currently, the division includes a large number of relatively small but promising product lines serving markets not served by other parts of McGraw-Edison. The variety of markets involved creates opportunities for existing and new products or acquired small businesses.

Because of the developmental nature of this division, its overall rate of growth is likely to be moderate. However, because its function is to identify and develop future businesses for the company, individual product lines within the division may grow rapidly.

2

1 Inspecting timers used in home appliances.

2 Testing a hermetically sealed toggle switch used in the orbiter of the U.S. space shuttle program.

3 Testing new insulation materials for power capacitors.

3

As a diversified electrical equipment manufacturer, many of the company's products involve extensive research, testing and engineering work. To maintain product excellence and to continuously advance the state of the art, all operating units place special emphasis on research and development activities, and these activities are supported by more basic research conducted by the company's Thomas A. Edison Technical Center.

Much of the company's research focuses on the solar generation, storage, transmission and control of electrical energy as applied to products which are currently in use, as well as new product development.

Product development activities are conducted primarily by the operating divisions of the company, while most technological research is conducted by the Technical Center. Formerly a part of the company's Power Systems division, the Technical Center was made a part of the company's headquarters in 1976, and its scope was expanded to serve all utility and industrial operations.

The role of the Technical Center is to develop the technology of selected apparatus and materials to a point where they can be used by operating divisions in producing new or improved products. The bulk of the Technical Center's activities are projects for the operating divisions of the company, but it also conducts research programs for the Electric Power Research Institute, a utility industry sponsored organization, and performs contract testing projects for a number of unaffiliated organizations.

Situated on a 134-acre site in Franksville, Wisconsin, the Technical Center includes approximately 60,000 square feet of laboratories and offices, and employs nearly 100 scientists, engineers and technicians.

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The Major Appliance Group manufactures and markets a variety of kitchen, laundry and air comfort appliances for consumer and commercial use.

Built-in kitchen appliances, such as ranges and dishwashers, designed for new and remodeled homes and sold through home builders and kitchen remodelers are produced by the Modern Maid division.

The Speed Queen division manufactures home laundry appliances, including automatic and wringer washers and gas and electric dryers. The division is also the leading supplier of equipment for coin-operated laundries in the U.S.

Room air conditioners, central air conditioning for residential and light commercial applications, dehumidifiers, humidifiers, electric heating equipment, and special mobile home air comfort packages are produced by the Air Comfort division. During 1976, the division also entered the commercial condenser business.

The International Metal Products division manufactures and markets air moving and cooling products for residential, commercial, industrial and agricultural applications. The major portion of its products utilize an evaporative cooling process which is very effective in drier climates such as the Southwestern U.S., the countries of the Middle East and Australia.

In Canada, the company's major appliance operation manufactures home laundry equipment under the Simplicity brand name and distributes products made for the Canadian market by the Modern Maid, Speed Queen and Air Comfort divisions.

The group's U.S. exports to some 70 countries are handled by the company's International division which maintains offices in the United Kingdom, Belgium, Australia, Puerto Rico and Greece.

Market Comment

Modern Maid primarily serves the single-family housing market. While this market has fluctuated considerably in the last few years, Modern Maid's business has been somewhat more stable because the demand for its high quality products is more constant than the overall market.

With the increase in single-family housing construction, the home laundry market served by Speed Queen has improved, while the domestic and overseas markets for coin-operated laundry equipment continue to expand.

The U.S. market for most types of air conditioning equipment and appliances has decreased during the last two years. The outlook is now more favorable with increased housing construction, improved consumer spending and more stringent industrial health and safety standards.

1976 Highlights

During the year, Modern Maid initiated a program to manufacture its own microwave oven, currently produced for them by another company. It also introduced a complete line of self-cleaning (pyrolytic) electric wall ovens, and installed a new paint process that will make appliance surfaces far less susceptible to chipping and scratching. Additionally, construction of a new $1 million production facility was begun during 1976.

Speed Queen division introduced a new line of domestic laundry equipment during 1976 which incorporated new, energy saving features. A major manufacturing realignment was completed during 1976 that has resulted in lower manufacturing costs and improvements in production scheduling and inventory levels. Other manufacturing improvement programs emphasized quality control and cost-saving programs.

1 Modern Maid built-in kitchen appliances.

2 Speed Queen coin-operated laundry equipment.

3 Energy-saving roof top evaporative coolers.

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Marketing efforts at Speed Queen also were reshaped with a new sales training program for distributors and dealers, reflecting the division's continued emphasis on this marketing method, versus direct selling in past years. In addition, the division strengthened its international and government marketing efforts and began marketing appliances under private label for several major retailers.

With the help of a more aggressive marketing program in 1976, the Air Comfort division doubled sales of room air conditioners, and substantially increased sales of dehumidifiers and central air conditioning systems. Increases in all product categories far exceeded industry averages.

The International Metal Products division concentrated its efforts on expanding the market for evaporative air cooling products. These systems use about 25 percent of the electricity required by conventional air conditioning equipment and have great potential in many commercial and industrial applications. A leader in evaporative air cooling equipment, the division is forecasting continued growth for its products. During 1976, the division added a 150,000 square-foot warehouse to better serve this expanding market.

Outlook
The general outlook for the Major Appliance Group is positive. With an expanded product line and improved production facilities at Modern Maid, aggressive product development and expanded marketing efforts at Speed Queen, and a rapidly growing demand for energy saving appliances at International Metal Products, the group's sales and profitability should increase.

Key goals for 1977 and beyond include improved international marketing of all major appliances and an increased share of the domestic market for home appliances.

Portable Appliance and Tool Group

The Portable Appliance and Tool Group manufactures and markets a wide variety of electric housewares and electric and hand tools. These products include Toastmaster table top oven-broilers, toasters and waffle bakers; Ingraham electric clocks and timers; Edison fans and heaters; and a complete line of Shopmate electric tools and Village Blacksmith electric and hand garden tools. Kitchen appliances and portable electric tools are also manufactured for major retailers through private label programs.

Market Comment

The portable appliance and tool markets are highly competitive and fluctuate with consumer spending patterns. A key to sustained growth for this business is the development of new and improved products and the development of new markets overseas.

A major restructuring of this business to better respond to market demands continued in 1976. As part of this effort, product lines were trimmed and attention was directed to the more successful products which remained. Growth in these products together with new product introductions enabled the group to post sales gains once again. Total sales reached 1973-74 levels while profits remained depressed as costs were absorbed in rebuilding this business.

1

1976 Highlights

In the appliance product area, five new or improved products were introduced in 1976. These new products included the Toastmaster System III oven-broiler, which offers the additional feature of a "slow heat" cooking capability, and the safer, more effective Edison Comfort Sensor heater.

Sales of home-use timers also improved substantially in 1976 in response to an increased concern for home security and energy conservation. Additionally, a nylon cord grass trimmer called Graswip was added to the Village Blacksmith line to serve the rapidly growing market for electric lawn and garden tools.

Other new products introduced during the year included a hamburger cooker, a toaster oven, a juice mixer, a 4″ belt sander, and several new wall clock designs.

During the year, major expenditures were made to modernize and improve the productive capacity of manufacturing facilities and to improve quality control programs.

Outlook

The demand for innovative convenience appliances in the U.S. and other countries has grown rapidly in recent years. This trend, plus the concern for energy conservation, product quality and service, have created a new set of standards for the design and marketing of consumer appliances and tools.

The company's Portable Appliance and Tool Group has initiated a number of programs aimed at responding to these changes including aggressive new product development, improved quality control, new customer service programs, increased operating efficiencies and new marketing programs.

This group registered a substantial improvement from the previous year and is in an improved position to benefit from better consumer spending patterns.

1 Shopmate power drills ready for inspection.

2 Toastmaster appliances for the kitchen.

3 Assembly of lawn and garden power tools.

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Food Service Equipment Group

Serving the commercial and institutional food service industry, the Food Service Equipment Group manufactures cooking equipment, refrigerators and freezers, shelving and mobile food storage equipment, and a variety of specialty and custom fabricated equipment. Southern, Seco, Toastmaster and Victory are the group's major brand names.

Market Comment
The Food Service Equipment Group serves the third largest industry in the world, the mass feeding industry which includes restaurants, hospitals, nursing homes, schools, hotels, and fast food operations.

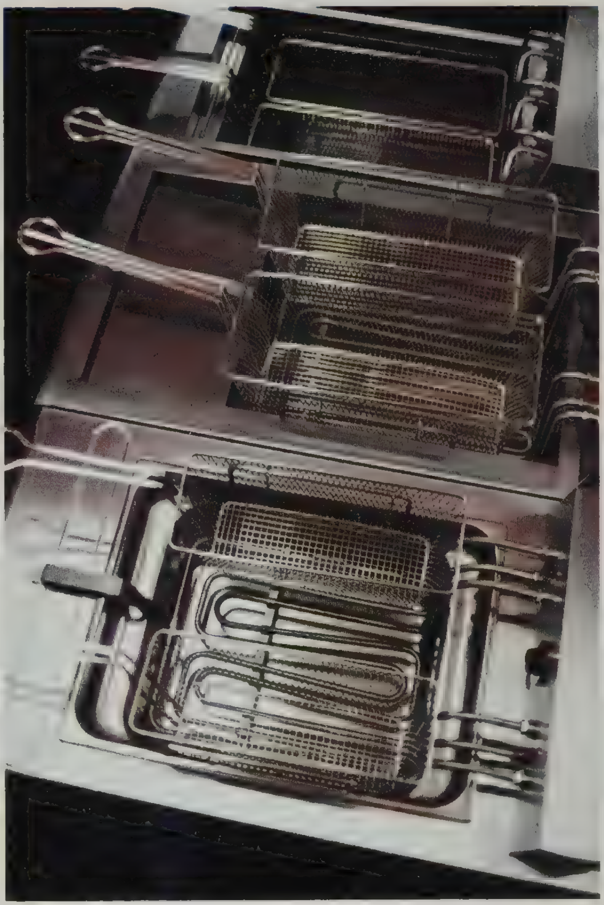
A major trend in this growing market is toward the utilization of a broad range of equipment designed as a system to promote quality, efficiency and productivity. In response, major manufacturers like McGraw-Edison's Food Service Equipment Group have integrated the marketing of their product lines to provide a coordinated source of equipment.

Food Service Equipment's strengthened marketing program should help provide a growth rate greater than that of the industry. The group demonstrated such growth potential during 1976 with a 13 percent increase in sales.

1976 Highlights
New product introductions set the tone for the Food Service Equipment Group during 1976 and helped the group attain record sales and earnings. The introduction of the Victory Rapid Refrigeration System, a totally new refrigeration, freezing and thawing concept, has substantial value for the end user because it increases the storage life of chilled and frozen foods.

The Seco Vent Wash System represents a futuristic approach to institutional and commercial kitchen ventilation systems, increasing cleanliness, limiting hazards and reducing labor costs.

Also, a new line of Toastmaster T-Line counter equipment has brought a new dimension to the mass feeding industry by offering greater flexibility in the choice of equipment sizes, an alternative to expensive custom built installations.



1

The Food Service Equipment Group solidified its "one-source" approach to marketing with the completion of a 10,000 square-foot group headquarters building which includes a showroom for the group's products and special facilities for dealer education programs.

This "one-source" marketing approach also has helped to expand the group's capabilities in serving customers worldwide.

Outlook
Some recent market surveys indicate that by 1980 nearly half of the average U.S. consumer's expenditures for food will be for commercially prepared meals in restaurants. This trend towards eating away from home increases the demand for the type of products made by the Food Service Equipment Group. With the group's efforts to further broaden its product line and to expand its international marketing efforts, this McGraw-Edison business should produce continued growth in sales and earnings.

2

1&3 Toastmaster deep fryers and Victory commercial refrigerator.

2 Serving the growing trend of eating away from home.

3

1

American Laundry Machinery division is the world's leading manufacturer of commercial laundry and dry cleaning machinery. The division markets a complete line of basic commercial machinery including washers, washer/extractors, extractors, supply systems, conveying equipment, drying tumblers, ironer feeders, ironers, folders, garment finishing equipment and dry cleaning machinery.

Coin-operated drying tumblers manufactured by American Laundry are sold under the Huebsch brand by this division and under the Speed Queen brand by the Speed Queen division. American Laundry markets a retail dry cleaning license under the Martinizing name, and also licenses a vapor process to garment manufacturers that imparts a durable press finish and shrinkage control to cotton and cotton content garments.

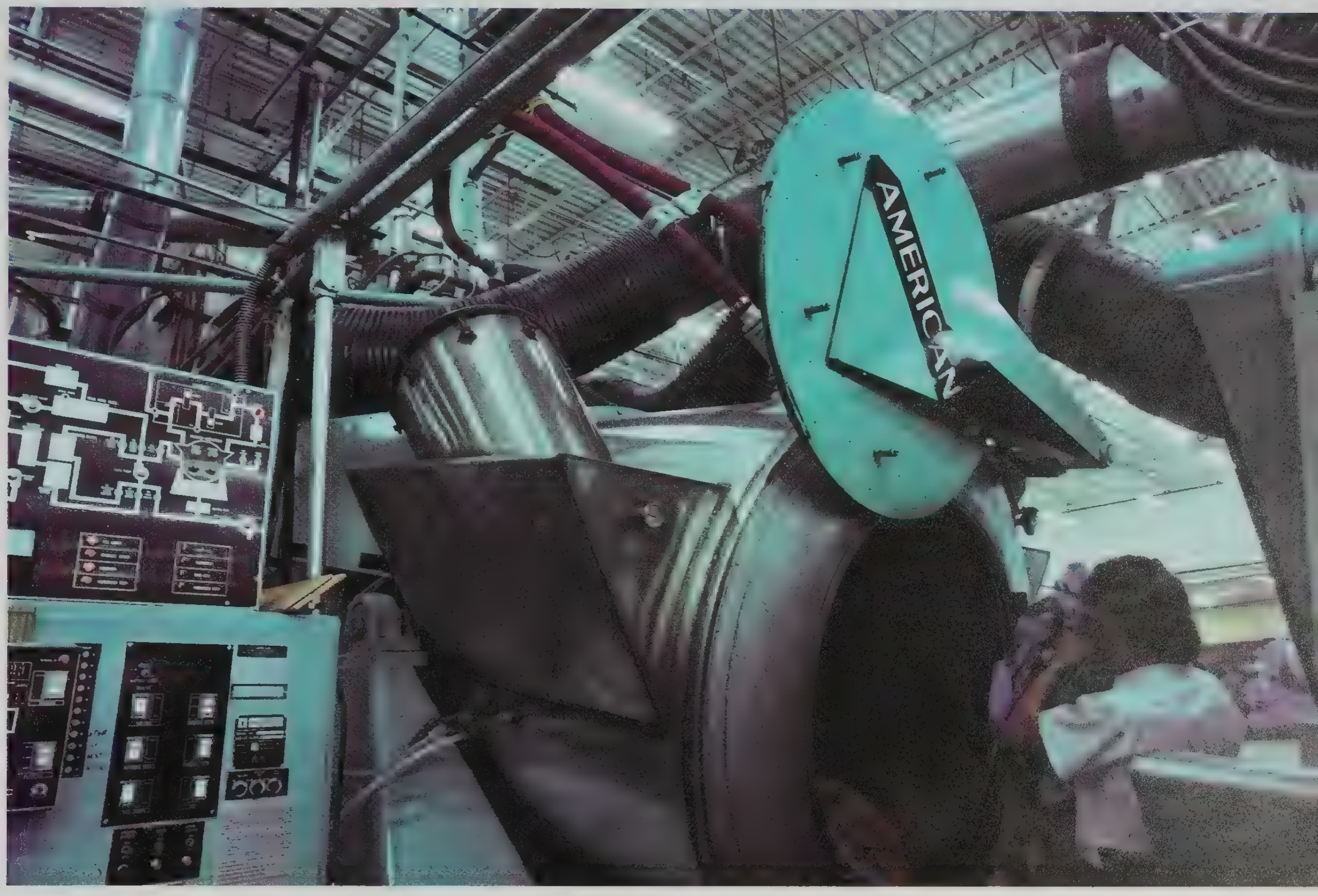
Market Comment

Larger machinery products are sold in the U.S. and Canada through a direct field sales organization which provides application engineering, installation supervision and repair service. Major customers for direct sales include institutions, linen suppliers, industrial laundries and large hotels. The family-owned laundry, an important market for machinery in the past, has nearly disappeared because of the popularity of "no iron" shirts which are washed at home. Outside North America large machinery products are sold through distributors and agents.

Smaller machinery products—such as coin-operated tumblers, presses, and small washer-extractors—are sold worldwide through distributors. The major end users are coin laundries, route operators, small commercial laundries, motels, and dry cleaning shops.

The basic market for laundry machinery has shrunk dramatically in recent years with the advent of easy-care garments and textiles which greatly reduced demand for conventional commercial laundry and dry cleaning services. Many laundry machinery manufacturers discontinued business. American Laundry Machinery division responded successfully to this challenge through a vigorous effort of new product development combined with a program to restructure and streamline its business to reduce costs.

1&2 Highly automated wet laundry and dry cleaning systems reduce operating costs and save energy.



2

1976 Highlights

In 1976, American Laundry Machinery achieved a good increase in sales, profit margins and return on investment. Steps taken in 1975 to consolidate facilities have resulted in important reductions in overhead and expenses, and new products with improved margins also have helped.

Sales of coin-operated drying tumblers improved in 1976, partially a result of the popularity of the Loadstar II, an energy-saving gas tumbler.

The division continued to expand sales of its Slant/Line automated wash room system during 1976. With this concept, the laundry is handled only by machinery from the soil room through the drying tumblers. New products introduced during 1976 which work with the Slant/Line system include a vacuum loading system, packaged central supply system, shuttle conveyor for tumbler loading and a sling loading type of extractor. A new large, steam-heated tumbler was also successful because many laundries are unable to get gas for gas-fired tumblers.

During the year, a well known manufacturer of men's knit sport shirts, became a licensee to use the division's vapor phase process to treat knit cotton garments. A new type of chemical reactor was developed and installed in their plant.

The division continued its program to develop a line of dyeing machinery based on the concept of the Slant/Line washer. A system including vacuum loading, six dyers, conveyor belts, and extractor and tumbler were installed in a men's hosiery mill. These dyeing machines not only offer automation but also reduced usage of water, energy and chemicals.

Outlook

During the past five years, the market for commercial laundry and dry cleaning equipment has changed dramatically as a result of synthetic fabrics. Simultaneously, the division's product line has been completely modernized, unneeded facilities have been closed, and promising new product and market programs have been implemented. With these strengths and a more stable market, American Laundry Machinery should be able to continue its good performance of 1976.


1


2

The Lighting Products Group is comprised of three operating divisions: Halo Lighting, which manufactures and markets primarily incandescent fixtures for commercial and residential applications; Area Lighting, which produces and markets outdoor lighting systems for street, area and floodlighting applications; and Prestige Products, which manufactures and markets table and floor lamps for residential use.

Market Comment

During 1976, the Lighting Group was one of the company's strongest performers, with sales growing more rapidly than the general economy. For outdoor lighting products in particular, the market has rebounded substantially from a low point in 1974 and 1975, and in 1977, it is expected to reach levels comparable to the peak year of 1973.

All three divisions of the group have benefited from these market trends. The group has continued to emphasize new product development and is a leader in bringing new products to the market.

1976 Highlights

Sales and profit growth in 1976 came from every part of the world. Halo's manufacturing operations in England, West Germany and Canada all moved to larger quarters to accommodate increased demand, and sales in other international areas (notably Central and South America) have more than kept pace.

In the U.S., Halo's new Elk Grove Village, Illinois plant has resulted in greatly increased production and improved efficiency.

To strengthen its marketing efforts, Halo introduced a major new catalog for its popular Lite Trend residential decorative fixture line and opened a unique educational showroom at its headquarters. Area Lighting expanded its line of highly successful Power Drawer luminaire series, offering the benefits of its exclusive modular ballast assembly in a broader range of fixtures.

During the year, Prestige Products consolidated four scattered and outdated production operations into one new facility in Bensenville, Illinois. The subsequent efficiencies and improved operating economies should help to improve profitability in the future.

3

1&2 Outdoor lighting for communities, shopping centers and home use.

3 New Halo Lighting showroom in Elk Grove Village, Ill.

Outlook

The general improvement in the demand for both indoor and outdoor lighting fixtures which began in 1976 should continue through 1977. This demand, aided by concern for safety as well as esthetic considerations, should be boosted by the expected improvement in the housing market during 1977.

In both indoor and outdoor lighting markets, there is a definite trend toward increased use of more energy-efficient light sources, especially mercury vapor and high-pressure sodium, areas in which the group has considerable experience.

During the last several years, the group has invested to improve its plant facilities and operating efficiencies, and has strengthened its marketing and product development efforts.

With these greater strengths, the improving domestic market and more aggressive pursuit of overseas markets, the outlook for the Lighting Group is very positive.

Financial Review

Net sales and earnings before income taxes for each of the company's three product classifications for the five years ended December 31, 1976, were:

($000's omitted)

Net sales	**1976**	1975	1974	1973	1972
Consumer	**$ 368,459**	$322,518	$373,274	$360,798	$308,419
Industrial	**361,197**	300,179	293,968	257,066	228,841
Utility	**277,764**	251,930	242,356	207,680	212,000
Total	**$1,007,420**	$874,627	$909,598	$825,544	$749,260
Earnings before income taxes					
Consumer	**$ 16,944**	$ 2,625	$ 3,299	$ 34,985	$ 36,571
Industrial	**56,171**	41,717	34,069	31,988	27,809
Utility	**39,025**	27,303	(7,560)	5,658	12,018
Finance subsidiary	**—**	—	426	904	1,136
Total	**$ 112,140**	$ 71,645	$ 30,234	$ 73,535	$ 77,534
Percent of sales					
Consumer	**4.6%**	.8%	.9%	9.7%	11.9%
Industrial	**15.6**	13.9	11.6	12.4	12.2
Utility	**14.0**	10.8	(3.1)	2.7	5.7
Finance subsidiary	**—**	—	—	—	—
Total	**11.1%**	8.2%	3.3%	8.8%	10.2%

In the foregoing summaries, sales have been classified as to the market utilized for specific product lines within divisions. Determinations of this type require allocations, some of which must necessarily be arbitrary. The methods used, however, have been consistently applied, and the company believes they have produced reasonable results.

Consolidated sales of $1,007,420,000 in 1976 surpassed the previous high reached in 1974 and were 15.2 percent ahead of 1975. In 1975, sales decreased 3.8 percent entirely because of a decline in sales of the company's consumer products resulting from general economic circumstances. Net sales increased 10.2 percent in each of the years 1974 and 1973.

The company's 1976 earnings set a new record. Pre-tax earnings of $112,140,000 were 56.5 percent better than the prior year and 44.6 percent better than in 1972, previously the best year. The company's industrial and utility businesses each established new sales and earnings records. Consumer products sales were second only to those obtained in 1974 while earnings of $16,944,000 were the best in the last three years.

Earnings in 1974 were significantly reduced as the consumer and utility businesses were affected by sharply increasing costs. Because of price controls and fixed commitments, selling prices could not keep pace with rising costs. In 1974, the company changed its method of determining inventory cost for most of its U.S. based inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. This action, together with elimination of extended fixed price contracts in favor of margin protecting escalation clauses, better equipped the company to deal with changing economic cycles. Consolidated earnings declined in 1973 be-

cause of the effects of a work stoppage at the company's largest utility products manufacturing facility at Canonsburg, Pennsylvania. The strike carried into 1974.

The company's international sales totaled $170,000,000 in 1976. Approximately half of 1976 international sales were registered by the Canadian subsidiary while the balance was principally export shipments to a large number of countries.

Consumer Products
Sales of the company's consumer products were $368,459,000 in 1976, or 14.2 percent better than the prior year and only slightly below the record set in 1974. Shipments of major appliances such as home washers and dryers, air conditioners and ranges were up over 1975. Portable appliances and tools, the other principal consumer product category, also exceeded 1975 sales—by approximately 15 percent. The company's decline in consumer product sales in 1975 was primarily due to recessionary influences. Public reluctance to spend on discretionary items and corresponding curtailment of inventory levels by dealers affected sales of most of the company's consumer items.

Consumer products earnings in 1976 were substantially improved over 1975. Portable appliances and tools sharply reduced losses incurred in 1975 and 1974 of $13,900,000 and $9,200,000 respectively, to a $3,300,000 loss in 1976. Appliances were marginally profitable in 1976 with tools being the only unprofitable consumer line of any consequence. Tools continued to show the effects of a major restructuring which took place throughout 1975 and carried into 1976 as the final phase of consolidating operations of two plants into one new location was completed. Major appliances and most consumer products other than portable appliances and tools increased over 20 percent in profitability during the year.

Industrial Products
For the 11th consecutive year, sales and earnings of the company's industrial products increased. All major products within their class recorded good sales and earnings gains. They include lighting products, food service equipment, fuses and other control devices, commercial laundry equipment, coils and motor repairs.

The company's industrial products are well established and, on the whole, are less impacted by economic fluctuations than other markets served by the company.

Utility Products
Demand for heavy transmission equipment, such as power transformers and oil circuit breakers, has been relatively constant over the last five years. Shipments have been made in a consistent pattern except for the period from October, 1973 to February, 1974 when the company's power transformer and circuit breaker facility was idle because of a work stoppage. Distribution equipment, such as distribution transformers and construction hardware, has shown a fluctuating sales pattern related to general economic trends and particularly to the rate of housing starts. As an example, distribution transformer volume was down about 30 percent in 1975 but rebounded to a sales increase of 25 percent in 1976.

In 1975, the implementation of escalation clauses on stretched out contracts, the elimination of losing product lines (such as metalclad switchgear) and a concentrated cost reduction program brought margins in utility products to their best level since 1967. The continuing effects of these actions further improved margins in 1976.

Utility product earnings, modest in 1972, were particularly depressed in 1973 because of the strike. The 1974 loss resulted mainly from the effects of fixed price contracts on power transformers in the face of sharply rising costs and the effects of the change to LIFO inventory accounting.

Stock Prices

The company's common stock is traded on the New York Stock Exchange. The following is a summary of the closing market prices during 1976 and 1975.

	1976		1975	
	Low	**High**	Low	High
Quarters				
1st	**$21¾**	**$28⅜**	$11½	$15½
2nd	**26⅜**	**30½**	12⅞	20⅝
3rd	**27⅞**	**32½**	16½	21⅛
4th	**27¾**	**32¼**	18¾	23

Dividends

The company has paid a cash dividend every year since 1934. Future dividends will continue to depend on earnings, capital requirements, financial condition and other business factors. The current annual dividend rate is $1.60 per share ($.40 per quarter), which was established by the board of directors at its meeting on February 9, 1977.

For the last two years, the quarterly dividiends paid per share were as follows:

	1976	1975
Quarters		
1st	**$.30**	$.375
2nd	**.35**	.30
3rd	**.375**	.30
4th	**.375**	.30
Total	**$1.40**	$1.275

McGraw-Edison Company and Subsidiaries
For the Years Ended December 31, 1976 and 1975

Consolidated Statement of Income

($000's omitted, except per share amounts)

	1976	1975
Net sales	$1,007,420	$874,627
Costs and expenses:		
Cost of goods sold (Note 2)	732,776	658,594
General, administrative, engineering and selling expenses	157,889	135,540
Interest expense, net (Note 6)	2,127	6,920
Other expense	2,488	1,928
Taxes on income (Note 5)	55,664	33,959
Total costs and expenses	950,944	836,941
Net income	$ 56,476	$ 37,686
Net income per share	$3.47	$2.32
Average shares outstanding	16,274	16,250
Dividends paid per share	$1.40	$1.275

The Notes to Consolidated Financial Statements should be read in conjunction with the above statement.

McGraw-Edison Company and Subsidiaries
December 31, 1976 and 1975

Consolidated Balance Sheet

($000's omitted)

ASSETS	1976	1975
Current Assets:		
Cash and marketable securities	$ 87,637	$ 51,932
Advance to finance subsidiary (Note 12)	—	6,800
Receivables, less reserves ($7,280,000 in 1976 and $6,630,000 in 1975)	175,586	151,789
Inventories (Note 2)	230,916	215,468
Prepaid taxes and other expenses (Note 5)	15,024	13,304
Total current assets	509,163	439,293
Equity in net assets of finance subsidiary (Note 12)	—	6,481
Other Assets	5,137	4,855
Plant and Equipment, at cost:		
Land	7,443	7,520
Buildings	88,474	89,575
Machinery and equipment	168,382	163,487
	264,299	260,582
Less—Accumulated depreciation	158,001	151,418
Plant and equipment, net	106,298	109,164
	$620,598	$559,793

LIABILITIES	1976	1975
Current Liabilities:		
Notes payable and commercial paper (Note 3)	$ 13,911	$ 5,072
Portion of long-term debt due within one year	1,522	1,769
Accounts payable	56,880	47,751
Accrued liabilities	54,296	45,960
Federal, state and foreign taxes on income (Note 5)	30,433	27,973
Total current liabilities	157,042	128,525
Long-Term Debt (Note 4):		
7½% Sinking Fund Debentures	47,670	49,048
Other long-term notes payable, less current portion	12,193	13,222
Total long-term debt	59,863	62,270
Stockholders' Equity (Notes 7 and 11):		
Common stock—authorized 25,000,000 shares; $1 par value per share; issued and outstanding 16,302,540 shares at December 31, 1976, and 16,251,738 shares at December 31, 1975	16,303	16,252
Additional paid-in capital	68,585	67,626
Earnings retained for use in the business	318,805	285,120
Total stockholders' equity	403,693	368,998
	$620,598	$559,793

The Notes to Consolidated Financial Statements should be read in conjunction with the above balance sheet.

McGraw-Edison Company and Subsidiaries
For the Years Ended December 31, 1976 and 1975

Consolidated Statement of Changes in Financial Position

($000's omitted)

	1976	1975
Sources of Working Capital:		
Net income	**$ 56,476**	$ 37,686
Depreciation	**16,880**	17,444
Working capital provided from operations	**73,356**	55,130
Equity in net assets of finance subsidiary	**6,481**	—
Reduction of notes receivable from finance subsidiary	**—**	9,000
Increase in other long-term notes payable	**489**	1,778
Dispositions of plant and equipment	**3,005**	2,209
Issuance of common stock under option plans	**1,010**	34
	84,341	68,151
Applications of Working Capital:		
Dividends paid	**22,791**	20,668
Investment in plant and equipment	**17,019**	17,764
Reduction of long-term debt	**2,896**	2,917
Other	**282**	405
	42,988	41,754
Net Increase in Working Capital	**$ 41,353**	$ 26,397
Analysis of Changes in Working Capital:		
Cash and marketable securities	**$ 35,705**	$ 38,764
Short-term advances to finance subsidiary	**(6,800)**	(15,700)
Receivables, net	**23,797**	(14,208)
Refundable Federal income taxes	**—**	(7,153)
Inventories	**15,448**	(67,470)
Prepaid taxes and other expenses	**1,720**	2,851
Increase (Decrease) in current assets	**69,870**	(62,916)
Notes payable, including current portion of long-term debt, and commercial paper	**(8,592)**	109,271
Accounts payable, accruals, and taxes on income	**(19,925)**	(19,958)
(Increase) Decrease in current liabilities	**(28,517)**	89,313
Net Increase in Working Capital	**$ 41,353**	$ 26,397

The Notes to Consolidated Financial Statements should be read in conjunction with the above statement.

Consolidated Statements of Earnings Retained for Use in the Business and Additional Paid-in Capital

($000's omitted)

Consolidated Statement of Earnings Retained for Use in the Business	**1976**	1975
Balance at beginning of year	**$285,120**	$268,102
Net income for the year	**56,476**	37,686
Dividends paid, $1.40 per share in 1976 and $1.275 per share in 1975	**(22,791)**	(20,668)
Balance at end of year	**$318,805**	$285,120

Consolidated Statement of Additional Paid-in Capital	**1976**	1975
Balance at beginning of year	**$ 67,626**	$ 67,427
Excess of quoted market value over par value of 13,500 shares issued for a company acquired on a purchase basis	**—**	167
Proceeds in excess of par value of 50,802 shares in 1976 and 2,262 shares in 1975 sold under stock option plans (Note 7)	**959**	32
Balance at end of year	**$ 68,585**	$ 67,626

The Notes to Consolidated Financial Statements should be read in conjunction with the above statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements include all wholly-owned domestic and foreign manufacturing and sales subsidiary companies. The wholly-owned McGraw-Edison Credit Corporation was treated as a non-consolidated subsidiary and its earnings were included in consolidated earnings on the "equity" method of accounting in 1975. Refer to note 12 for additional comments regarding the finance subsidiary. All significant intercompany items and transactions have been eliminated.

With respect to foreign subsidiaries, net assets are translated to U.S. dollars at the year-end exchange rates, except fixed assets, their related depreciation reserves and inventories which are translated at historical rates. Income and expenses are translated at the average exchange rates during the year, except for depreciation and cost of sales which are translated at historical rates. Gains and losses on foreign exchange are included in consolidated income and are not significant.

Inventories
Inventories are stated at the lower of cost or market. As described in note 2, cost was determined principally by the last-in, first-out method. Inventory costs include material, labor and manufacturing overhead.

Depreciation
Depreciation of plant and equipment is recorded principally on accelerated methods (primarily sum-of-the-years-digits), over the estimated useful lives, for both financial reporting and income tax purposes.

Research and Development
Research and development costs are expensed as incurred. For the years ended December 31, 1976 and 1975, research and development costs charged to expense were $5,093,000 and $5,265,000, respectively.

Taxes on Income
Allowable investment tax credits are taken into income on the "flow-through" method by reducing the provision for Federal income taxes in the year the related assets are placed in service. No provision is made for income taxes on the undistributed earnings of the domestic international sales corporation subsidiary. Such earnings, aggregating approximately $8,308,000 through 1976, and $5,486,000 through 1975, are expected to be indefinitely reinvested.

Net Income per Share
Net income per share is based on the average shares outstanding during the periods. Dilution from granted but unexercised stock options is negligible.

Leases
Annual rental obligations are not significant. Leases of land and buildings under which the rentals can reasonably be expected to return the full cost of the property plus a reasonable rate of interest to the lessor are capitalized as purchases.

2. INVENTORIES

Inventories at December 31, 1976 and 1975, are summarized below:

($000's omitted)	**1976**	1975
Raw materials and work in process	**$143,090**	$133,191
Finished goods	**87,826**	82,277
Total inventories	**$230,916**	$215,468

Certain domestic inventories, amounting to $173,003,000 and $129,276,000 at December 31, 1976 and 1975, respectively, are based on the last-in, first-out (LIFO) method; such inventories, if priced on the first-in, first-out (FIFO) method, would have been $39,004,000 and $28,039,000 greater at December 31, 1976 and 1975, respectively.

During 1975, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1975 purchases, the effect of which increased net income for the year by approximately $5,241,000, or $.32 per share. For 1976, the liquidation of LIFO inventory quantities was minimal.

3. SHORT-TERM BORROWING

At year-end, the company had available lines of short-term credit from its banks of $75,251,000, of which $65,000,000 is from United States banks, $10,000,000 from Canadian banks and $251,000 from a Mexican bank. These lines of short-term credit are available at the prevailing prime rates. In 1976 and 1975, United States bank borrowings were negligible; bank borrowings were principally from Canadian and Mexican banks.

Compensating cash balances are maintained on an informal basis with United States banks, generally on the basis of 10 percent of the available line of credit plus an additional 10 percent to the extent the lines are utilized. The arrangement with Canadian banks is to pay interest at the Canadian prime rate on the daily borrowings. Cash balances are not restricted either legally or by agreement.

Pertinent statistics on 1976 and 1975 short-term borrowings are shown below:

	($000's omitted)			
	1976		1975	
	Amount	**Average Rate of Interest**	Amount	Average Rate of Interest
At year-end—				
Notes payable to banks	**$ 527**	**9.3%**	$ 5,072	10.2%
Commercial paper	**13,384**	**8.5**	—	—
During the year—				
Maximum borrowing—				
Banks	**7,904**		7,478	
Commercial paper	**13,384**		111,472	
Combined	**14,636**		117,141	
Average month-end amount outstanding—				
Banks	**4,191**	**10.3**	3,252	10.5
Commercial paper	**6,587**	**9.4**	47,341	7.6

4. LONG-TERM DEBT

The $47,670,000 of 7½ percent Sinking Fund Debentures, due in 1996, are traded on the New York Stock Exchange. The company is required to provide an annual sinking fund of $2,100,000 on or before each May 1, from 1977 to 1995. The sinking fund provision is calculated to retire approximately 80 percent of the issue prior to maturity. During 1976 and 1975, market purchases of bonds with an aggregate face value of $1,378,000 and $952,000, respectively, were made and have been applied to satisfy the 1977 sinking fund requirement and to partially satisfy the 1978 requirement. Interest is payable on May 1 and November 1.

Other long-term notes have rates varying from 3¾ percent to 8½ percent. Included in these notes are obligations under industrial revenue bonds for leased plants treated as installment purchases for accounting purposes. Aggregate principal payments are less than $2,327,000 per year through 1981.

None of the loan agreements contain restrictions which are significant to the company's operations or financial position.

5. INCOME TAXES

The provision for income taxes amounted to 49.6 percent and 47.4 percent of income before taxes for 1976 and 1975, respectively. The reasons for the difference between these rates and the Federal income tax rate of 48 percent for the two years are as follows:

($000's omitted)

	1976		1975	
	Amount	**% of Income Before Taxes**	Amount	% of Income Before Taxes
Provisions for income taxes at the Federal income tax rate	**$53,827**	**48.0%**	$34,390	48.0%
Provision for state income taxes, net of Federal income tax benefit	**3,299**	**2.9**	1,997	2.8
Investment tax credits	**(950)**	**(.8)**	(1,113)	(1.6)
Tax deferral on undistributed earnings of domestic international sales corporation	**(1,355)**	**(1.2)**	(1,228)	(1.7)
Various items, none of which is significant in itself	**843**	**.7**	(87)	(.1)
Provision for income taxes	**$55,664**	**49.6%**	$33,959	47.4%

The provision for income taxes consists of the following:

($000's omitted)

	1976	1975
Currently payable—		
Federal	**$50,586**	$29,049
State and local	**6,344**	3,840
Foreign	**1,220**	2,279
	58,150	35,168
Prepaid	**(2,486)**	(1,209)
	$55,664	$33,959

Prepaid taxes arise from timing differences in the recognition of certain expenses between financial statements and tax returns. The net effect of these differences is included in prepaid taxes and other expenses in the consolidated balance sheet.

. INTEREST INCOME ND EXPENSE

	($000's omitted)	
	1976	1975
Interest expense, 7½% Sinking Fund Debentures	**$3,658**	$3,748
Other interest expense, principally short-term borrowings	**1,707**	3,893
	5,365	7,641
Interest income from temporary investments, etc.	**(3,238)**	(721)
Interest expense, net	**$2,127**	$6,920

. STOCK OPTIONS

The company has a 1974 Stock Incentive Program and a 1966 Stock Option Plan under which a total of 786,113 shares of common stock are reserved as of December 31, 1976 for issuance to officers and key employees.

In 1976, qualified options to purchase 145,650 shares under the 1974 program were granted which expire five years after date of grant. Also granted under the 1974 program were 12,900 shares of nonqualified options which expire 10 years after date of grant. Options have been granted at not less than market value at date of grant and become exercisable in four equal annual installments starting one year after date of grant.

The 1974 Stock Incentive Program also provides for performance stock awards and other incentive benefits. As of December 31, 1976, no awards have been granted under these sections of the 1974 program.

	1976 Shares	**Average Price**	1975 Shares	Average Price
Options outstanding at beginning of year	**404,378**	**$19.08**	448,778	$20.07
Options granted	**158,550**	**27.77**	20,750	17.63
Options exercised	**(50,802)**	**16.07**	(2,262)	14.88
Options cancelled or expired	**(39,479)**		(62,888)	
Options outstanding at end of year	**472,647**	**$22.16**	404,378	$19.08
Options exercisable at end of year	**163,031**	**$18.93**	118,390	$21.55

8. MANAGEMENT INCENTIVE COMPENSATION

The company has a Management Incentive Compensation Plan for officers and other key employees. As provided in the plan, the aggregate amount payable cannot exceed three percent of the total consolidated net profit of the company and its subsidiaries before provisions for income taxes and management incentive compensation payments. Of the total incentive fund established for each year, 50 percent is distributed automatically to eligible personnel while the remaining 50 percent may be distributed only at the discretion of the Board of Directors acting on the recommendation of its Compensation Committee. Amounts paid under the plan for 1976 and 1975 were $2,169,000 and $1,523,000, respectively.

9. PROFIT SHARING AND PENSION PLANS

The majority of domestic employees are covered by the McGraw-Edison Company Profit Sharing Trust, which was established in 1953 as a savings and retirement plan for employees. Provisions for contributions to the plan were $12,380,000 in 1976 and $8,548,000 in 1975. At December 31, 1976, the McGraw-Edison Company Profit Sharing Trust owned 3,397,951 shares (20.8 percent) of the company's common stock.

Certain employees who do not participate in the profit sharing plan referred to above are covered by a pension plan. The total pension provisions for this plan in 1976 and 1975 were $1,744,000 and $1,849,000, which includes amortization of the past service liability over 30 years. The company's policy is to fund pension costs accrued. At December 31, 1976, the estimated unfunded past service liability was approximately $17,157,000. The actuarially computed value of vested benefits was estimated to be $9,421,000 in excess of pension fund assets and balance sheet accruals at year end.

The company also has several other profit sharing, pension and retirement plans which cover most employees not participating in either of the above plans at December 31, 1976. Provisions of $1,431,000 in 1976 and $1,153,000 in 1975 have been charged to expense for these plans. Unfunded past service liabilities under these plans are not material.

10. LEGAL PROCEEDINGS

A number of legal actions have been instituted against the company which involve ordinary routine matters as are incident to the kinds of businesses conducted by the company. In the opinion of management, the ultimate disposition of all such actions will not have a materially adverse effect upon the company's consolidated financial statements.

11. COMMON STOCK

Changes in the company's $1 par value common stock during the years ended December 31, 1976 and 1975 are summarized as follows:

	1976	1975
Balance at beginning of year	**16,251,738**	16,235,976
Shares issued for acquisition on a purchase basis	—	13,500
Shares issued under stock option plans	**50,802**	2,262
Balance at end of year	**16,302,540**	16,251,738

2. McGRAW-EDISON CREDIT CORPORATION

Prior to 1974, McGraw-Edison Credit Corporation, the company's wholly-owned finance subsidiary, was engaged in commercial finance activities and, to a lesser extent, financed the sales of the company's products. A decision to discontinue the general finance activities of this subsidiary was made in 1974. During 1976 and 1975, the activities of this subsidiary were substantially completed and late in 1976 the subsidiary was liquidated and became a division. Income, recorded on the "equity" method of accounting prior to liquidation, was insignificant in 1976 and 1975.

3. QUARTERLY SUMMARY (UNAUDITED)

The company's quarterly results are summarized below for the year ended 1976:

($000's omitted, except per share amounts)

	March 31	June 30	September 30	December 31
Net sales	$241,698	$262,174	$255,575	$247,973
Gross profit	64,553	69,515	67,892	72,684
Percent of sales	26.7%	26.5%	26.6%	29.3%
Net income	$ 14,284	$ 15,574	$ 13,351	$ 13,267
Net income per share	$ .88	$ .96	$ .82	$ .81

The gross profit rate in the quarter ended December 31, 1976 exceeded that of the prior quarters because of favorable adjustments to cost of sales, resulting from annual physical inventories.

Net income for the fourth quarter of 1976 reflects approximately $2,000,000, pretax, of charges related to certain idle facilities.

4. GENERAL COMMENTS ON THE IMPACT OF INFLATION (UNAUDITED)

The Securities and Exchange Commission has issued certain regulations requiring companies to estimate the current replacement cost of inventories, productive capacity, cost of sales and depreciation. Although there are no generally accepted methods of computing the required data, the company believes procedures followed by it are consistent with guidelines established by the commission.

In recent years, primarily because of competitive factors, the company was unable to raise selling prices sufficiently to compensate for escalating production costs. In 1976, however, the company was able to restore overall margins to an acceptable level. An easing of inflationary pressures coupled with the benefits received from recent management actions, which resulted in improved operating productivity and efficiencies, are seen as prime reasons for the higher margins.

The company is principally on the LIFO method of inventory accounting, thus the income statement effect of converting historical cost of sales to replacement cost is less than it would be under other inventory valuation methods. Moreover, the company follows accelerated depreciation methods (primarily sum-of-the-years-digits) for financial reporting purposes as well as for income tax purposes. These methods also reduce the difference between reported historical depreciation and the amount computed in accordance with the commission's regulation, which is the straight-line method applied to the estimated replacement cost of plant and equipment.

For quantitative information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1976, and the related estimated effect of such costs on cost of sales and depreciation expense for the year then ended, reference is made to the company's annual report Form 10-K, a copy of which is available on request.

Auditors' Report

To the Stockholders and Board of Directors,
McGraw-Edison Company:

We have examined the consolidated balance sheet of McGRAW-EDISON COMPANY (a Delaware Corporation) AND SUBSIDIARIES as of December 31, 1976 and 1975, and the consolidated statements of income, earnings retained for use in the business and additional paid-in capital, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of McGraw-Edison Company and Subsidiaries as of December 31, 1976 and 1975, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
February 4, 1977.

Ten Year Financial Summary[1]

(000's omitted, except per share amounts)

FOR THE YEAR	1976	1975	1974[4]
Net sales from continuing businesses	**$1,007,420**	$874,627	$909,598
Gross profit on sales	**$ 274,644**	216,033	182,196
Interest expense	**$ 5,365**	7,641	12,291
Taxes on income from continuing businesses	**$ 55,664**	33,959	12,891
Percent of pretax income	**49.6%**	47.4%	42.9%
Income from continuing businesses	**$ 56,476**	37,686	17,137
Percent of sales	**5.6%**	4.3%	1.9%
Per share	**$ 3.47**	2.32	1.06
Losses on discontinued businesses, net of taxes	**$ —**	—	—
Per share	**$ —**	—	—
Net income	**$ 56,476**	37,686	17,137
Per share[2]	**$ 3.47**	2.32	1.06
Dividends per share	**$ 1.40**	1.275	1.50
Capital expenditures	**$ 17,019**	17,764	30,204
Depreciation	**$ 16,880**	17,444	16,600
AT YEAR-END			
Working capital—			
Amount	**$ 352,121**	310,768	284,371
Current ratio	**3.2 to 1**	3.4 to 1	2.3 to 1
Long-term debt	**$ 59,863**	62,270	63,409
Stockholders' equity—			
Amount	**$ 403,693**	368,998	351,765
Shares outstanding	**16,303**	16,252	16,236
Per share	**$ 24.76**	22.70	21.67
Return on average stockholders' equity	**14.6%**	10.5%	4.8%
Common stock price range (for the year)	**$32½-21¾**	23-11½	23-11⅛
Price-earnings ratio[3]	**9.0**	9.7	10.7
Number of employees	**24**	24	26

(1) The ten year financial summary data should be read in conjunction with the "Financial Review" and "Notes to Consolidated Financial Statements."

The amounts shown for all years reflect the accounts of major companies acquired on a "pooling-of-interests" basis.

(2) Net income per share has been computed based upon the average number of shares outstanding during the periods as restated for acquisitions accounted for under the "pooling-of-interests" basis of accounting.

(3) Price-earnings ratios have been calculated on the basis of year-end stock prices in relation to income from continuing businesses.

1973	1972	1971	1970	1969	1968	1967
$825,544	$749,260	$691,030	$652,384	$627,092	$592,652	$572,048
200,052	188,743	168,024	163,059	163,822	156,984	148,160
5,522	4,563	3,585	2,472	1,259	1,087	901
35,255	36,983	32,329	31,859	36,772	37,132	31,734
48.2%	48.1%	47.1%	48.1%	50.9%	50.9%	46.5%
37,827	39,995	36,383	34,308	35,437	35,841	36,486
4.6%	5.3%	5.3%	5.4%	5.7%	6.0%	6.4%
2.42	2.60	2.35	2.23	2.32	2.31	2.30
(4,113)	(1,131)	(8,908)	(3,106)	(924)	9	638
(.26)	(.07)	(.57)	(.20)	(.06)	—	.04
33,714	38,864	27,475	31,202	34,513	35,850	37,124
2.16	2.53	1.78	2.03	2.26	2.31	2.34
1.50	1.425	1.40	1.40	1.40	1.40	1.25
23,509	19,253	14,469	17,661	17,763	24,168	14,348
15,354	15,089	14,797	13,685	12,527	11,106	10,420
298,563	284,143	282,818	220,646	209,218	202,306	198,281
3.7 to 1	4.2 to 1	4.4 to 1	3.5 to 1	3.6 to 1	3.8 to 1	3.8 to 1
59,628	57,830	56,036	6,761	6,895	8,092	5,752
359,255	329,842	321,307	310,723	293,826	281,610	268,882
16,236	15,221	15,460	15,392	15,230	15,279	15,479
22.13	21.67	20.78	20.19	19.29	18.43	17.37
9.8%	11.9%	8.7%	10.3%	12.0%	13.0%	14.4%
40¼-19	45-33⅜	43¼-30⅜	36-21⅝	38¼-29⅝	44¾-33⅛	45⅞-29⅜
8.1	15.5	14.6	16.0	14.2	16.3	16.4
29	26	26	26	26	25	25

(4) In 1974, the company adopted the last-in, first-out (LIFO) method of determining inventory cost for the majority of its U.S. based inventories; these inventories previously were valued at the lower of first-in, first-out (FIFO) cost or market. The election had the effect of reducing net income by $15,748,000 or 97 cents per share. In addition, the company modified its method of valuing overhead in inventories to conform to Internal Revenue Service Regulations. This modification increased net income by $1,508,000 or nine cents per share.

Directors and Officers

Board of Directors

Edward J. Williams
Elgin, Illinois
Chairman, President and
Chief Executive Officer

Royal D. Alworth, Jr.
Duluth, Minnesota
President, Oneida Realty Company
Real estate and investments

Herbert M. Appleton
Elgin, Illinois
Executive Vice President—
Utility and Industrial Operations

L. Hardwick Caldwell, Jr.
Chattanooga, Tennessee
Executive Vice President—
Consumer and Commercial Operations

Raymond H. Giesecke
Wayne, Illinois
Retired Chairman of the Board

John A. Logan
Warren, Ohio
President, Ajax Magnethermic Corporation
Manufacturer of electric furnaces

Harry T. Marks
Cleveland, Ohio
Former Chairman and Chief Executive Officer
Ferro Corporation
Manufacturer of frit, colors, chemicals,
fiber glass

Marvin G. Mitchell
Oak Brook, Illinois
Chairman, President and
Chief Executive Officer
Chicago Bridge & Iron Company
Design, fabrication and erection of metal
plate structures

Richard N. Rosett
Chicago, Illinois
Dean of the Graduate School of Business
and Professor of Business Economics
The University of Chicago

Boyd J. Simmons
Chicago, Illinois
Former Senior Vice President
Continental Illinois National Bank
and Trust Company of Chicago

Committees of The Board of Directors

Executive Committee
Boyd J. Simmons, Chairman
Royal D. Alworth, Jr.
Raymond H. Giesecke
John A. Logan
Harry T. Marks
Marvin G. Mitchell
Richard N. Rosett
Edward J. Williams

Compensation Committee
Royal D. Alworth, Jr., Chairman
Harry T. Marks
Marvin G. Mitchell
Boyd J. Simmons

Audit Committee
John A. Logan, Chairman
Harry T. Marks
Boyd J. Simmons

Nominating Committee
Boyd J. Simmons, Chairman
Royal D. Alworth, Jr.
L. Hardwick Caldwell, Jr.
Marvin G. Mitchell
Edward J. Williams

Officers

Edward J. Williams
Chairman, President and
Chief Executive Officer

Herbert M. Appleton
Executive Vice President—
Utility and Industrial Operations

L. Hardwick Caldwell, Jr.
Executive Vice President—
Consumer and Commercial Operations

A. Raymond Costantini
Vice President and Group President

William C. Heilbrun
Vice President, Materials Management

Austin S. Lett, Jr.
Treasurer

Thomas McKay, Jr.
Vice President, Secretary and
General Counsel

Michael P. Mullen
Vice President, Administration

James F. Quilter
Controller

Transfer Agents

The First National Bank of Chicago
Chicago

Marine Midland Bank
New York

Registrars

Harris Trust and Savings Bank
Chicago

The Chase Manhattan Bank
New York

Stock Listing

The common stock of the company is listed on the New York Stock Exchange. The ticker symbol is MGR.

Principal Operations

Utility and Industrial Operations

Power Systems Division
Canonsburg, Pennsylvania

Bussmann Manufacturing Division
St. Louis, Missouri

Thomas A. Edison Technical Center
Franksville, Wisconsin

Commercial Development Division
Manchester, New Hampshire

National Electric Coil Division
Columbus, Ohio

Consumer and Commercial Operations

Major Appliance Group

- **Air Comfort Division**
  Albion, Michigan
- **International Metal Products Division**
  Phoenix, Arizona
- **Modern Maid Division**
  Chattanooga, Tennessee
- **Speed Queen Division**
  Ripon, Wisconsin

Portable Appliance and Tool Group
Columbia, Missouri

McGraw-Edison International Division
Elgin, Illinois

American Laundry Machinery Division
Cincinnati, Ohio

Food Service Equipment Group

- **Southern Equipment Division**
  St. Louis, Missouri
- **Toastmaster Commercial Division**
  Algonquin, Illinois
- **Victory Manufacturing Division**
  Plymouth Meeting, Pennsylvania

Lighting Products Group

- **Area Lighting Division**
  Racine, Wisconsin
- **Halo Lighting Division**
  Elk Grove Village, Illinois
- **Prestige Products Division**
  Bensenville, Illinois

Principal Subsidiaries

McGraw-Edison of Canada, Limited
Toronto, Ontario, Canada

McGraw-Edison International Sales Corporation
A domestic international
sales company (DISC)
Elgin, Illinois

International Metal Products Co. de Mexico, S.A.
Monterrey, Mexico

McGraw-Edison Pan American Corporation
Elgin, Illinois

About the Company

McGraw-Edison Company is a major manufacturer and marketer of a wide variety of electrical products for the consumer, industrial and utility markets.

Consumer products include major appliances, such as washers, dryers, ranges, evaporative coolers and air conditioners; portable appliances and tools such as broilers, toasters, heaters and power tools; and consumer lighting products. Major brand names in the consumer area are Toastmaster, Speed Queen, Modern Maid, Village Blacksmith, and Edison.

Industrial products include area lighting products, food service equipment, commercial laundry and dry cleaning equipment, fuses, batteries and control devices, and coil making and motor and generator repair services. McGraw-Edison's primary industrial brands are Halo, Victory, Toastmaster, Seco, American, Edison, Buss, Fusetron and Necco Bond.

Utility products include transformers, circuit breakers, reclosers, voltage regulators, power capacitors, fusing equipment, surge arresters, and pole-line hardware. The company produces the broadest line of electrical distribution and transmission apparatus of any manufacturer.

The company employs 24,000 people and operates 95 manufacturing facilities in the United States, Canada and Mexico.

Trademarks

The following are registered trademarks of the company which appear in the text of this report: Modern Maid, Speed Queen, Toastmaster, Shopmate, Victory, Halo, Edison, Village Blacksmith, Seco, American, Buss, Fusetron, Hi-Cap, Limitron, Necco-Bond, Simplicity, Ingraham, Martinizing, Huebsch, Tron, Gemco, Graswip, Slant/Line and Lite Trend.

Other company trademarks which appear in this report are: Slow Heat, Comfort Sensor, Rapid Refrigeration System, T-Line, Loadstar II, Power Drawer, Edisol and System III.

McGraw-Edison Company, 333 West River Road, Elgin, Illinois 60120